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Before the
Federal Communications Commission
Washington, D.C. 20554

DEC 17 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of

Simplification of the
Depreciation Prescription
Process

CC Docket No. 92-296

NYNEX'S COMMENTS

These comments are filed on behalf of New England Telephone and Telegraph Company and New York Telephone Company (respectively, "NYNEX New England" and "NYNEX New York"; collectively, "NYNEX"), in response to an Order Inviting Comments (the "Order") released by the Federal Communications Commission (the "Commission") in the above-entitled proceeding on November 12, 1993.

Pursuant to its simplification of the depreciation prescription process, the Commission is establishing ranges of projection lives and future net salvage factors for as many plant accounts as feasible, beginning in 1994. The Commission has invited comments on (i) the accounts it has selected for the use of ranges in 1994 and (ii) the projection life and future net salvage ranges it proposes for the accounts selected.

As shown below, the Commission's selection of accounts and its proposed ranges do little to truly simplify the depreciation prescription process. Indeed, the requirement of full studies to bring outlying parameters within the proposed

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ranges actually adds complexity. In order to significantly and effectively advance the Commission's goal of simplification, the list of accounts must be expanded to include major accounts; separate ranges should be provided for the underground metallic cable rate category; the proposed ranges should be broadened and updated annually; and full studies should not be required in order to bring parameters within the ranges proposed.

I. THE LIST OF ACCOUNTS SELECTED MUST BE EXPANDED IN ORDER TO ADVANCE THE COMMISSION'S GOAL OF SIMPLIFICATION

The Commission's goal of simplification will not be advanced unless the list of accounts selected for use with ranges in 1994 is expanded to include major accounts. The omission of major accounts from the Commission's list effectively postpones any meaningful simplification until at least 1995.

With the exception of cable accounts, none of the accounts selected by the Commission is significant in achieving simplification. Taken together, the twenty-two accounts listed by the Commission represent only 22.1% of NYNEX's depreciable asset base and only 18.9% of NYNEX's total annual depreciation expense.¹ In fact, most of the twenty-two accounts were eligible for treatment under the Commission's previous

¹ New England Telephone MA-16 Report for December 31, 1992 and New York Telephone MR-16 Report for December 31, 1992.

"Streamline Study Process".² Accordingly, in order to advance its goal of simplification, the Commission must expand the list of selected accounts to include major accounts (particularly those affected by competition and technological change, such as digital switching, digital circuit, and aerial and buried metallic cable).

The proposed range of parameters for the underground metallic cable account is not appropriate for interoffice underground metallic cable. The interoffice network has led in the adoption of fiber transmission facilities, and the transition of interoffice technology from metallic-based transmission to fiber-based transmission is in its final stages. As a result, life characteristics of underground interoffice metallic cable are significantly different from the life characteristics of underground subscriber metallic cable. The Commission should therefore provide a separate range for the interoffice underground metallic cable rate category that is consistent with the lives and salvage factors currently prescribed for NYNEX New England and NYNEX New York.

² In March 1993, NYNEX New England used the Streamline Study Process for eighteen of these accounts in its depreciation rate filing. See New England Telephone 1993 Depreciation Rate Study. Apparently, the Streamline Study Process is no longer available as a study option. See Federal Communications Commission Depreciation Study Guide for 1994 Companies, August 17, 1994.

II. THE PROJECTION LIFE AND FUTURE NET SALVAGE
RANGES MUST BE BROADENED AND UPDATED ANNUALLY

The Commission itself has noted the shortcomings of an approach that determines projection life as an average, plus or minus one standard deviation.³ The approach is indeed procrustean.⁴ Among its other failings, the use of such narrow ranges around a national average based upon the Commission's determination of lives wholly ignores the realities of the telecommunications market. If ranges are to be established, they should be broader and provision should be made to update them annually in order to reflect the effects of competition and advancing technology. NYNEX supports the ranges proposed by USTA in its comments of December 17, 1993, filed in this proceeding.

The shortcomings of the ranges proposed by the Commission are exemplified by the non-metallic (fiber) cable accounts. These accounts have been assigned uniform projection life ranges of 25-30 years. However, fiber is subject to chemical deterioration of its outer surfaces from the inevitable action of air and airborne moisture (particularly steam) that leads to a loss of ability to transmit light

³ Simplification of the Depreciation Prescription Process, CC Docket 92-296, Report and Order released October 20, 1993, p. 26, ¶ 62.

⁴ The effect of a one-standard-deviation range is to cause about one third of the data points to lie outside the range. Thus, at any one time, about one third of the parameters encompassing all prescribed LECs across the nation will be in non-compliance. In addition, as the Commission continues to represcribe one third of the LECs each year, two thirds of the parameters used for the distribution analysis are always two or three years old.

signals. A realistic estimate of the life of glass fiber is about 20 years, or an even shorter period in high-stress urban environments.⁵ In fact, cable system operators use a maximum life of 15 years for both fiber-optic and coaxial cable.⁶

NYNEX has experienced the result of a failure to prescribe appropriate lives. The depreciation rates of interoffice metallic cable accounts doubled or tripled in one represcription.⁷ Similarly, in less than a decade, the crossbar account rose from a depreciation expense equivalent to \$10 per access line to a stunning \$125 per access line.⁸

III. THE RANGES PROPOSED DO NOT GIVE PROPER WEIGHT TO THE EFFECTS OF COMPETITION

The effect of competition is to shorten equipment lives, and this effect is exacerbated by rapid advances in technology. The ranges proposed by the Commission do not give proper weight to the competitive environment in which NYNEX operates. This is particularly detrimental in the NYNEX region, which is exceptionally vulnerable to competition due to volumes and concentration of traffic. NYNEX territory includes

⁵ See New York Telephone 1992 Depreciation Rate Filing, Outside Plant General Narrative for a summary of studies done on fiber degradation.

⁶ CTM Report, Tables 5.4, 5.7, 5.8 and 5.9, 1991 Comparative Asset Lives.

⁷ New York Telephone 1992 Depreciation Rate Filing, Statement A, "Agreement with FCC", and New England Telephone 1993 Depreciation Rate Filing, Statement A "Three-Way Meeting Results".

⁸ New York Telephone 1989 Depreciation Rate Filing, Crossbar Account Narrative.

a significant part of the Northeast corridor, with its business concentration. Manhattan alone is home to over 13,200 corporate headquarters, the New York Stock Exchange and the American Stock Exchange. Competitors offer alternative telecommunications services to large numbers of high-usage customers within an extremely small geographic area.

In metropolitan New York, to date, alternative telecommunications providers have requested collocation of facilities in fifteen central office buildings and have implemented collocation in twelve. These buildings, which represent less than 3% of the total number of NYNEX New York central offices throughout New York State, produce approximately 25% of NYNEX New York's interstate access revenue. In fact, in New York, only fifty-four central office buildings, representing a mere 10% of the total, provide fully 56% of the interstate access revenue.

In Boston, to date, collocation has been requested in fourteen buildings and is now present in eight. These buildings, representing only 2% of the total NYNEX New England central offices, provide over 10% of NYNEX New England's interstate access revenue. As in New York, NYNEX New England's revenues are concentrated, and collocation in only 10% of NYNEX New England's central offices would provide access to over 50% of NYNEX New England's interstate access revenue.⁹

⁹ The collocation data set forth in the text are as of the third quarter of 1993. The revenue data are based on the first six months of 1993.

A number of strong, technologically-astute and well-financed companies have entered or are entering markets NYNEX serves. The popular description of the competitors as "Davids" against a NYNEX "Goliath" can no longer be maintained. U.S. West has joined with Time Warner to upgrade cable and provide advanced telecommunications services in Manhattan and Queens. U.S. West and Southwestern Bell are reported to be competing to buy Cablevision Systems, serving two million customers in the NYNEX region. Bell Atlantic is working through a merger with TeleCommunications Incorporated, the country's largest cable provider, which has systems throughout the region. AT&T partnered with a cable company to provide a complete enhanced communications package to a Long Island, New York college, replacing NYNEX New York as the local exchange provider. The local service is provided as part of a cable TV and long distance service package. Finally, Bell South has announced a joint venture with Cox Cable Systems, part owner of Teleport, the New York area's largest alternative access provider ("ALT"). NYNEX faces mature competition now, from competitors as large and sophisticated as itself.¹⁰

NYNEX's competitors initiate service to customers using up-to-date, state-of-the-art technological platforms, free from the constraints of replacing obsolete technology and recovering capital previously expended in such technology.

¹⁰ See The New York Times, November 28, 1993, Section 3, page 1, "From Sibling Rivalry to Civil War"; December 5, 1993, Section 3, page 5, "NYNEX After the Wake-Up Call"; December 8, 1993, Section D, pages 1 and 17, "Southwestern Bell and Cox Plan a \$4.9 Billion Venture."

Moreover, although the equipment used by competitors is frequently identical to that used by NYNEX, the depreciation lives used by cable companies and ALTs generally range from one-half to one-third of the lives prescribed for NYNEX by the Commission.¹¹ Even NYNEX's prescribed equipment lives for older, obsolescent equipment are frequently longer than its competitors' lives for modern equipment.¹²

NYNEX, in particular, faces competition and the shortened lives that competition brings. Competition will inevitably spread, but to delay recognition of its effects until competition is ubiquitous is to penalize all of the LECs -- and their customers -- now operating in concentrated, competitive markets.

IV. FULL STUDIES SHOULD NOT BE REQUIRED TO BRING THE PARAMETERS WITHIN THE RANGES

By proposing ranges, the Commission has indicated its conclusion that the proposed ranges are appropriate. It is inconsistent with this conclusion to require a study to bring parameters within the ranges proposed. If a study requirement is imposed, it should at least be limited to only the specific parameter falling outside of the range.

11 CTM Report, Tables 5.4, 5.7, 5.8 and 5.9, 1991 Comparative Asset Lives.

12 Compare CTM Report, supra, with lives prescribed for NYNEX New York's Subscriber Cable Accounts, New York Telephone Company 1992 Depreciation Rate Study, Parameter Report "Agreement with FCC" and with lives prescribed for NYNEX New England's Subscriber Cable Accounts, New England Telephone Company 1993 Depreciation Rate Study, Parameter Report "Three-Way Meeting Results".

The following examples illustrate the unnecessary burdensomeness of the Commission's requirements. Of the eighteen accounts filed in 1993 by NYNEX New England under the Streamline Study Process, twenty-four parameters in nine categories are out of range. Additionally, full studies were conducted in the 1993 filing for some of the twenty-two accounts listed in this Order. This increases NYNEX New England's filing requirements under the "simplified" process to full studies of at least thirty-seven parameters in twelve categories, in these twenty-two accounts alone. This would be required merely to bring parameters within ranges already determined to be appropriate by the Commission. Furthermore, at least one hundred eighty full parameter studies continue to be required for rate categories not included in the Commission's list of accounts. Finally, NYNEX New England has four states whose projection lives for analog circuit equipment are one-half year outside the range. Commission requirements would compel a full study for a half-year change in projection life, in a dying account.

The Commission should eliminate or modify the requirement of full account studies in order to bring within the proposed ranges parameters now falling outside of those ranges. This is particularly the case since both parameters must be studied, even if only one falls outside the range.

IV. CONCLUSION

NYNEX respectfully requests that the Commission revise its proposed list of accounts and ranges as requested above. Specifically, NYNEX requests that (i) the list of accounts specified by the Commission be expanded to include major accounts; (ii) separate ranges be provided for the interoffice underground metallic cable rate category; (iii) the ranges proposed be updated annually and broadened to reflect the effects of competition; and (iv) the requirement of full studies to bring parameters within the range be eliminated or modified as described above.

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Dated: December 17, 1993

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing NYNEX's
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prepaid, on each of the parties indicated on the attached
service list, this 17th day of December, 1993.


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